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RUEHBJ/AMEMBASSY BEIJING 3175
RUEHKO/AMEMBASSY TOKYO 8468
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C O N F I D E N T I A L SECTION 01 OF 02 BANGKOK 006696

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SUBJECT: THAILAND SETS PROCESS FOR APPROVAL OF FTA WITH
JAPAN

REF: BANGKOK 003354

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Classified By: Economic Counselor Michael J. Delaney; Reason: 1.4 (b) a
nd (d)

¶1. (C) Summary: The Thai Government looks to be moving ahead with the complete-but-unsigned Japan-Thailand FTA. Assuming no big problems crop up during the planned public hearings and legislative review, we believe the FTA with Japan will be signed in early 2007. The signing of the FTA with Japan, coupled with no progress on our own FTA with Thailand, is likely to create large trade diversion effects, resulting in significant adverse impact on U.S. exports to Thailand. End Summary.

¶2. (C) RTG and Japanese Embassy officials have confirmed local media reports that a process has been devised for moving the long-delayed Japan-Thailand Free Trade Agreement (FTA) forward to the implementation phase. The text of the Thai-Japan FTA was initialed by both governments' chief negotiators in mid-2005, but implementation has been delayed in Thailand owing to (first) the Thaksin government's political difficulties and (subsequently) the September 19 military coup in Thailand. Japan has long signaled its intention to ratify the FTA and begin implementation (reportedly, according to the still-confidential FTA text, implementation was originally scheduled to begin January 2006). All that legally remains is for the two governments' foreign ministers to sign the FTA; once that is done, implementation can begin.

¶3. (C) Shortly after the September 19 coup, Thai Deputy Prime Minister/Finance Minister Pridiyathorn announced a review of Thailand's pending trade agreements, including those with both Japan and the U.S. While stopping short of

panning the FTAs per se, Pridiyathorn echoed the views of earlier critics of the Thaksin government's approach to FTAs and cited the need for greater consultation with the parliament and civil society. Last week, the Thai government announced a concrete plan for considering the FTA with Japan.

On the basis of Pridiyathorn's statements, our talks with other RTG officials, and meetings with Japanese Embassy officials (both MFA and JETRO) in Bangkok, we believe the Thai Government will take the following sequential steps:

-- A research institute (probably the RTG-funded Thai Development and Research Institute -- TDRI) will be commissioned to undertake an assessment of the FTA's effect on the Thai economy, with a particular emphasis on costs and benefits and its sectoral impact.

-- The FTA will be considered by the full RTG Cabinet.

-- The FTA text will be sent to the National Legislative Assembly (the current stand-in for a parliament) for review. The review will include public hearings.

-- Following completion of these steps, the Prime Minister will decide whether to authorize the Foreign Minister to sign the FTA, bringing it into legal effect and allowing implementation to begin.

14. (C) Japanese Embassy officials believe this process will take several months, (hopefully) allowing the FTA to be signed in early 2007. The Japanese are optimistic that the FTA eventually will be given the go-ahead; Embassy officials point out (correctly, in our view) that the FTA with Japan has been relatively uncontroversial in Thailand. Their only concern is the possibility that the NLA might press for textual changes in the FTA; the Thai government has been unclear on whether this would be allowed.

Embassy Comment

15. (C) We agree with our Japanese colleagues -- there is a

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very good chance that Thailand's FTA with Japan will move ahead and be implemented in 2007. Several things distinguish Thailand's FTA with Japan from that of the U.S.: first, it is already completed; all that remains is to sign it. (The U.S. FTA text is far from finished.) Second, it has not attracted much controversy here, mainly because it concentrates on market access (tariff reductions) for industrial and some agricultural goods. (The U.S. FTA text encompasses hot-button issues such as financial services, pharmaceuticals IPR, and government procurement, and the negotiating process has been highly controversial here.)

16. (C) As noted in previous Embassy reporting, Thailand's high tariffs create a high potential for large trade diversion effects. The signing of the FTA with Japan, coupled with no progress on our own FTA with Thailand, is likely to create large trade diversion effects, resulting in significant adverse impact on U.S. exports to Thailand. (See 06 Bangkok 003354 for a detailed assessment.)

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